

Message Text

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ACTION OPIC-06

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FM AMEMBASSY NAIROBI

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E.O. 11652: N/A

TAGS: EINV, OPIC, KE

SUBJECT: APPLICATION FOR OPIC INVESTMENT INSURANCE -
KENYA - NILE INVESTMENTS

REF: STATE 59781

1. SUMMARY: THE EMBASSY CANNOT RECOMMEND THAT INVESTMENT INSURANCE BE ISSUED TO NILE INVESTMENTS FOR PLASTIC PIPE PROJECT AS THE PROJECT WAS PRESENTED IN THE COMPANY'S APPLICATION. WE FIND THAT THE COVERAGE REQUESTED IS INADEQUATE TO COVER THE TOTAL INVESTMENT INVOLVED AND THAT THE COMPANY'S EQUITY INVESTMENT IS MUCH TOO SMALL TO WARRANT THE LEVEL OF DIVIDEND REPATRIATION PROJECTED. THE EMBASSY HAS MADE SEVERAL RECOMMENDATIONS TO NILE INVESTMENTU, WHICH THEY HAVE ACCEPTED, FOR RESTRUCTURING THEIR CAPITAL AND INCREASING THEIR INSURANCE CVERAGE. WITH THESE CHANGES, THE EMBASSY RECOMMENDS THAT OPIC INVESTMENT INSURANCE BE ISSUED.END SUMMARY9

2. NILE INVESTMENTS' PROJECTION OF THEIR AFTER TAX PROFITS, WHICH MAY BE OVERLY OPTIMISTIC,INDICATE IAN AVERAGE OF \$280,000 ANNUALLY DURING THE NEXT FIVE YEARS, AND SUBSTANTIALLY HIGHER THEREAFTER, AVAILABLE FOR DIVIDENDS. WITH THE COMPNAY'S EQUITY INVESTMENT OF \$70,000, IT IS EXTREMELY IMPROBABLE THAT THE KENYAN CENTRAL BANK WOULD APPROVE THE CONVERSION AND REPATRIATION OF THIS LEVEL OF DIVIDENDS. LACK
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OF CENTRAL BANK ANPROVAL WOULD MEAN AN IMMEDIATE

CONVERTIBILITY CLAIM.

3. NILE INVESTMENTS' EXTREMELY HIGH PROJECTED RETURN ON EQUITY IS BASED ON THEIR EXTREMELY HIGH DEBT-TO-EQUITY RATION. WITH \$70,000 IN EQUITY THE COMPANY WILL HAVE APPROXIMATELY \$1,882,250 IN DEBT NOT COUNTING OPIC LOAN UNDER CONSIDERATION. IN ADDITION TO \$258,255 DEBT (INTER-COMPANY LOAN) SHOWN IN APPLICATION, NILE INVESTMENTS CENTRAL AFRICA LIMITED WILL HAVE APPROXIMATELY \$1,624,000 LOAN (INCLUDING INTEREST) FOR PURCHASE OF MACHINERY.

4. TO DEVELOP AN EQUITY BASE SUFFICIENTLY HIGH TO JUSTIFY THE LEVEL OF DIVIDENDS CONTEMPLATED, NILE INVESTMENTS PLANS TO RAISE GRADUALLY THE EQUITY OF THE OPERATING COMPANY TO \$1,000,000. INCREASE IN EQUITY WILL COME FROM REINVESTED EARNINGS AND NEW CASH INFUSION.

5. TO PROVIDE ADEQUATE COVERAGE FOR PROJECT, WITHIN NEXT FEW DAYS LAWYERS FOR NILE INVESTMENT WILL AMEND APPLICATION. AMENDMENT WILL INCLUDE RAISING MAXIMUM COVERAGE ON EQUITY INVESTMENT TO \$1,000,000, WITH CURRENT COVBAGE FOR FIRST CONTRACT PERIOD PROBABLY SAME AS IN ORIGINAL APPLICATION. IN ADDITION, COMPANY WILL SEEK POLITICAL RISK COVERAGE FOR HOLDING COMPANY'S GUARANTY OF \$1,624,000 LOAN TO OPERATING COMPANY FOR MACHINERY. INITIALLY CURRENT COVERAGE WOULD EQUAL MAXIMUM COVERAGE AND BE REDUCED AS LOAN IS REPAID OVER SEVEN-YEAR PERIOD. COMPANY WILL ALSO SEEK CONVERTIBILITY COVERAGE FOR FRANCHISE FEE OF 5 PERCENT OF SALES TO WAVIN OVERSEAS. MAXIMUM COVERAGE WOULD BE EXPECTED FRANCHISE FEE TEN YEARS HENCE; CURRENT COVERAGE WOULD BE FOR FIRST YEAR FEE.

6. WITH THE PLANNED INCRASE IN EQUITY AND THE INCREASE IN COVERAGE TO REFLECT THE SIZE OF THE INVESTMENT, THE EMBASSY RECOMMENDS THAT OPIC INVESTMENT INSURANCE BE ISSUED. NILE INVESTMENT SHOULD HAVE NO TROUBLE AMENDING CERTIFICATE OF APPROVED ENTERPRISE LIMITED OFFICIAL USE

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TO REFLECT ADDITIONAL EQUITY INVESTMENT.
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Message Attributes

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